Appendix 2

Report on Domestic Impact of U.S. Exports to Controlled Countries

In accordance with Section 14(e) of the Export Administration Act of 1979, as amended, the Bureau of Export Administration (BXA) continues to assess the impact on U.S. industry and employment of output from "controlled countries"[1] resulting, in particular, from the use of U.S. exports of turnkey plants and manufacturing facilities.

Section 14(e), which was added as an amendment to the Act in 1985, requires the following:

> "*...a detailed description of the extent of injury to U.S. industry and the extent of job displacement caused by U.S. exports of goods and technology to controlled countries.*"
>
> "*...a full analysis of the consequences of exports of turnkey plants and manufacturing facilities to controlled countries...to produce goods for export to the United States or compete with U.S. products in export markets.*"

Turnkey Plants and Facilities Exports

The Export Administration Regulations (EAR) require a license to export most turnkey plants and facilities (and related software and technology) to controlled destinations. In FY 1997, BXA did not issue any licenses to export turnkey plants and facilities to controlled countries.

As a result of several revisions to the EAR in recent years, an increasing number of turnkey plants and facilities (and related software and technology) have become eligible for export to controlled destinations either without a license or under a license exception. For example, a license is generally not required for exports to controlled destinations (except Cuba and North Korea) of turnkey plants and facilities (and related software and technology) that are classified as EAR99 (the designation for items that are subject to the EAR, but not listed on the Commerce Control List). In addition, certain turnkey plants and facilities (and related software and technology) may be listed in a Commerce Control List entry where the applicable Reason for Control does not require a license to one or more controlled destinations, as indicated in the appropriate Reason for Control column of the Commerce Country Chart. Other turnkey plants

[1] For the purpose of this section, "controlled countries" are: Albania; Armenia; Azerbaijan; Belarus; Bulgaria; Cambodia; China (PRC); Cuba; Estonia; Georgia; Kazakstan; Kyrgyzstan; Laos; Latvia; Lithuania; Moldova; Mongolia; North Korea; Romania; Russia; Tajikistan; Turkmenistan; Ukraine; Uzbekistan; and Vietnam.

and facilities (and related technology and software) may be eligible for export to controlled destinations under a license exception, such as License Exception CIV (which authorizes exports of certain national security controlled items to civil end-users, for civil end-uses, in most controlled countries, except Cuba and North Korea) or License Exception TSU (which authorizes exports of operation technology and software, sales technology, and software updates, subject to certain conditions).

BXA does not maintain data on actual U.S. exports, regardless of whether or not a license is required. In addition, U.S. export data that are available from the Bureau of the Census do not provide the level of specificity needed to identify exports of turnkey plants and facilities. These factors preclude a thorough assessment of the impact of U.S. exports of turnkey plants and facilities to controlled countries. However, the small number of such exports in the past, coupled with the low percentage of U.S. exports destined for controlled countries (see below), make it reasonable to conclude that the ultimate impact on U.S. production is insignificant.

Goods and Technology Exports

Historically, the dollar value of trade with controlled destinations has been low. In 1996, U.S. exports to these countries totaled $18.1 billion, which represents an increase of $1.8 billion over the 1995 figure, but still only 2.91 percent of total U.S. exports. A breakdown of exports by commodity category indicates that capital goods items, including machinery and transportation equipment, represented 47.87 percent of total U.S. exports to controlled countries in 1996. Given the small share of U.S. exports to these countries, relative to total U.S. exports, the overall adverse impact through injury to U.S. industry and job displacement is probably minimal.

Recently, the potential effect on U.S. economic competitiveness of technology transfers to certain controlled countries, including the People's Republic of China, has become the cause of some concern. Although the bases for our export controls are national security, foreign policy, and short supply, BXA, as part of its defense industrial base monitoring responsibilities, reviews, on an ongoing basis, the potential impact of U.S. technology transfers. These monitoring responsibilities are performed by BXA in the context of its involvement in reviewing the impact of offsets on defense trade, its participation in the Treasury Department-chaired Committee on Foreign Investment in the United States (CFIUS), and its assessments of the competitiveness of a number of strategic U.S. industrial sectors, including precision bearings, advanced composites, and robotics. Further information on these activities, including copies of the industrial sector assessments, is available from BXA's Office of Strategic Industries and Economic Security (SIES) and on BXA's webpage.

In addition to its routine monitoring of the U.S. defense industrial base, SIES has initiated a study that examines the extent to which access to the Chinese market is conditioned upon technology transfers, including those related to the establishment of turnkey plants and facilities. This study is expected to be completed in FY 1998 and will include an assessment of the national security and economic competitiveness implications of such technology transfers.